

BWC Board of Directors  
**Audit Committee Agenda**

**William Green Building**  
**Thursday, November 18, 2010**

Level 2, Room 3  
12:30 p.m. – 2:00 p.m.

**Call to Order**

Ken Haffey, Committee Chair

**Roll Call**

Jill Whitworth, Scribe

**Approve Minutes of October 21, 2010 meeting**

Ken Haffey, Committee Chair

**Approve Agenda**

Ken Haffey, Committee Chair

**New Business/ Action Items**

1. Motions for Board Consideration
  - A. For Second Reading
    1. Audit Committee Charter Review  
Don Berno, Board Liaison  
Ann Shannon, Legal Counsel
    2. Audit Discussion with External Auditor  
Joseph Patrick, Jr., Schneider Downs
    3. Discussion of External Audit Comments  
Tracy Valentino, Chief of Fiscal and Planning

**Discussion Items\***

1. Education Sessions
  - A. Disabled Workers Relief Fund  
Tina Kielmeyer, Chief of Customer Services

B. Temporary Total Disability

Tina Kielmeyer, Chief of Customer Services

C. Employer Compliance

Thomas Prunte, Director of Employer Management Services

2. Open Discussion with Internal Auditor

Caren Murdock, Chief of Internal Audit

3. Committee Calendar

Ken Haffey, Committee Chair

4. Litigation Update (if necessary), Executive Session

James Barnes, General Counsel and Chief Ethics Officer

**Adjourn**

Ken Haffey, Committee Chair

**Next Meeting: Wednesday, December 15, 2010**

\* Not all agenda items have material.

\*\* Agenda subject to change.

# OBWC Board of Directors Audit Committee Charter

## Purpose

The Audit Committee ~~has been established to assist~~s the Board of Directors of the Ohio Bureau of Workers' Compensation in fulfilling its fiduciary oversight responsibilities through:

- providing oversight of the integrity of financial reporting process;
- ensuring compliance with legal and regulatory requirements;
- monitoring the design and effectiveness of the system of internal control;
- confirming external auditor's qualifications and independence
- reviewing performance of the internal audit function and independent auditors
- reviewing opportunities and challenges the Board of Directors needs to discuss as it fulfills the statutory requirement to fix and maintain the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund.

In order to constitute the will of the Board of Directors, Committee actions must be ratified or adopted by the Board of Directors to become effective.

## Membership

The Committee shall be composed of a minimum of five (5) members. One member shall be the member of the Board who is appointed as the certified public accountant. The Board, by majority vote, shall appoint at least four additional members of the Board to serve on the Audit Committee and may appoint additional members, who are not Board members, as the Board determines necessary. Bureau management personnel cannot serve as ~~a~~-committee members.

The Chair and Vice Chair are designated by the Board, based on the recommendation of the Board Chair. If the Board Chair is not a member of the Committee, he/she shall be an ex-officio member. As an ex-officio member, he/she shall not vote if his/her vote will create a tie vote.

The Committee Chair will be responsible for scheduling all meetings of the Committee and providing the Committee with a written agenda for each meeting. In the absence of the Committee Chair, the Committee Vice-Chair will assume the Chair's responsibilities. The Committee will have a staff liaison designated to assist it in carrying out its duties.

Members of the Audit Committee serve at the pleasure of the Board, and the Board, by majority vote, may remove any member except the member of the committee who is the appointed certified public accountant member of the Board.

### **Meetings**

The Committee shall meet at least nine (9) times annually. The Committee chair will provide a meeting report at the next subsequent Board meeting. The Board grants the Committee authority to have additional meetings. Additional meetings may be requested by the Committee Chair, 2 or more members of the Committee, or the Chair of the Board.

A quorum shall consist of a majority of Committee members. Committee meetings will be conducted according to Robert's Rules of Order. All Directors are encouraged to attend the Committee meetings.

The Committee will invite members of management, external auditors, internal auditors and/or others to attend meetings and provide pertinent information as necessary.

Minutes for all meetings of the Committee will be prepared to document all actions of the Committee in the discharge of its responsibilities.

### **Duties and responsibilities**

1. The Audit Committee shall be responsible for the following statutory requirements:

- Recommend to the Board an accounting firm to perform the annual audit required under RC 4123.47. (RC 4121.129 (A)(1))
- Recommend an auditing firm for the Board to use when conducting audits under RC 4121.125. (RC 4121.129 (A)(2))
- Review results of each annual audit and management review; if problems exist, assess appropriate course of action to correct, and develop action plan. (RC 4121.129 (A)(3))
- Monitor implementation of any action plans created to correct problems noted in each annual audit. (RC 4121.129 (A)(4))
- Review management's biennial appropriation requests and recommend approval to the Board. (RC 4121.121 (B)(10).
- Review and recommend to the Board the proposed annual fiscal year Administrative Cost budget prepared by management. Also, advise the Board of any adjustments made to the proposed budget. (RC 4121.121 (B)(10).
- Review all internal audit reports on a regular basis. (RC 4121.129(A)(5))

- At least once every 10 years, have an independent auditor conduct a fiduciary performance audit of BWC's investment program, policies and procedures. Provide a copy of audit to the Auditor of State. (RC 4121.125(I))
  - Provide input to the Board when the Administrator seeks the advice and consent of the Board on the appointment and/or removal of the Chief of Internal Audit. (RC 4121.125 (J))
2. Oversight of the integrity of the financial information reporting process:
    - a. Review with management and the external auditor significant financial reporting issues and judgments made in connection with the preparation of the financial statements.
    - b. Review with management and the external auditor the results of the audit.
  3. Coordinate with other Board committees on issues of common interest, including but not limited to an annual discussion of audit issues which would impact the Board's statutory requirement to fix and maintain the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund.
  - ~~3.4.~~ \_\_\_\_\_ Serve as the primary liaison for Bureau of Workers' Compensation Board of Directors and providing a forum for handling all matters related to audits, examinations, investigations or inquiries of the Auditor of State and other appropriate State or Federal agencies.
  - ~~4.5.~~ \_\_\_\_\_ Develop an oversight process to assess the adequacy and effectiveness of internal controls and provide the mechanisms for periodic assessment of system of internal controls on an ongoing basis.
  - ~~5.6.~~ \_\_\_\_\_ Oversee the assessment of internal administrative and accounting controls by both the external independent financial statement auditor and internal auditor.
  - ~~6.7.~~ \_\_\_\_\_ Ensure the independence of the external auditor and approve all auditing, other attestations services and pre-approve non-audit services performed by the external auditor.
  - ~~7.8.~~ \_\_\_\_\_ Review the internal financial statements upon the request of a committee member or BWC staff.
  - ~~8.9.~~ \_\_\_\_\_ Receive and review reports from management regarding the status of appropriations bills.
  - ~~9.10.~~ \_\_\_\_\_ At least annually, meet with General Counsel and Chief of Internal Audit to review BWC Code of Ethics to ensure that it is adequate and up-to-date. Report on review and recommended changes, if necessary, to the Board.
  - ~~10.11.~~ \_\_\_\_\_ Retain and oversee consultants, experts, independent counsel, and accountants to advise the Committee on any of its responsibilities.
  - ~~11.12.~~ \_\_\_\_\_ Seek any information it requires from employees—all of whom are directed to cooperate with the Committee's requests, or the requests of internal or external parties working for the Committee. These parties include, but are not limited to internal auditors, all external auditors,

consultants, investigators and any other specialists working for the Committee.

~~12.13.~~ 13. The Audit Committee is responsible for strategic financial policies for assuring the appropriate legal-level of net assets for the appropriate BWC funds, including an annual review of the funding ratio and the net leverage ratio pursuant to BWC's Net Asset Policy. The Audit Committee shall also take the lead in the process for establishing the discount rate for reserves.

~~13.14.~~ 14. At least annually, review the Audit Committee charter and submit any proposed changes to the Governance Committee and to the Board for approval.

~~14.15.~~ 15. The Committee by majority vote may create a subcommittee consisting of one or more Directors on the Committee. In consultation with the chair, other board members may be appointed to the subcommittee as appropriate. The subcommittee shall have a specific purpose. The subcommittee shall keep minutes of its meetings. The subcommittee shall report to the Board of Directors through the Committee. The Committee by majority vote may dissolve the subcommittee at any time.

~~15.16.~~ 16. Perform such other duties required by law or otherwise as are necessary or appropriate to further the Committee's purposes, or as the Board may from time to time assign to the Committee.

Audit Committee Charter.doc  
Draft 092607  
Review & Approved 112107, Ken Haffey, Chair  
Revised 012408  
Revised 012508  
Revised 092408  
Annual Review and Revision 112108  
Annual Review and Revision 112009  
Annual Review and Revision 111910

## Presentation to Audit Committee

### I. **Disabled Workers' Relief Fund (DWRF)**

DWRF is a separate supplemental fund established to provide relief to an injured worker who is receiving permanent total disability (PTD) compensation benefits by raising the cost-of-living level. DWRF supplements are available to eligible state fund and self-insured PTD recipients. In the case of self-insured DWRF recipients, BWC processes the DWRF payments directly to the injured worker and then bills the self-insured employer accordingly.

At the end of each year, BWC established the DWRF minimum weekly entitlement that will be used for the upcoming year. This calculation is statutorily defined and incorporates the federal consumer price index (CPI) published as of September 1<sup>st</sup>. Once the minimum weekly entitlement is calculated each PTD recipient's rate is compared to the minimum weekly entitlement to determine if they are eligible for a DWRF supplement and at what rate.

In FY 2010 there were 22,483 individuals receiving PTD benefits. Of those PTD recipients 14,619 were also receiving a DWRF supplement. In FY2010 BWC paid out \$ 125,954,341.50 in DWRF supplements.

Until recently DWRF processing was largely manual. However, automation and V3 integration has improved the timeliness and accuracy of DWRF processing.

Currently BWC has three (3) DWRF Claims Specialists located within the Special Claims team in the Central Claims office who perform all of the DWRF reviews on PTD claims and order DWRF supplements. Current consideration is being given to regionalizing DWRF processing within specialized PTD teams.

### II. **Temporary Total (TT)**

TT compensation is provided to compensate an injured worker who is totally disabled from work on a temporary basis due to the **work related injury or occupational disease**. TT is generally the initial award of compensation paid to an injured worker to compensate for lost wages.

Payment of TT compensation will not be made for the period when an injured worker has returned to work; when an injured worker's POR/treating physician states that the injured worker is capable of returning to his/her former position of employment; when work within the physical capabilities of the injured worker is made available by the employer or another employer; or when the injured worker has reached maximum medical improvement (MMI).

The first seven (7) days of TT are not payable until 14 consecutive days of work are missed. In FY 2010 there were 26,195 individuals who received TT benefits totalling \$ 264,856,308.00.

While an IW is receiving TT BWC and the MCO are closely monitoring the claim and physician reports to ensure the IW is receiving appropriate and timely medical interventions. Ohio law requires BWC to obtain independent medical examinations at 90 days and 200 weeks while an IW is receiving TT to confirm the extent of disability and appropriateness of TT. TT disputes are referred to the Ohio Industrial Commission for determination.

Currently, TT is paid by 433 Claims Service Specialists (CSS) located in BWC lost time service offices around the state.

### III. Employer Compliance

The Employer Compliance Department (ECD) was created in August 2008. Several studies were conducted which led to growing non-compliance concerns and eventual formation of the Employer Compliance Project team comprised of representatives from Employer Services, Finance, Special Investigations, Business Consulting, Underwriting and Premium Audit. The team concluded that BWC utilizes multiple disciplines to provide information and support to Ohio employers with coverage issues, but there was no aggressive focus or dedicated project team to deal with employers operating without appropriate coverage. This department is in its infancy states, continually growing and adapting to meet and adjust to increasing demands.

The initial target group of potential non-complying employers included approximately 5,500 employers identified from the potential universe total of 209,244 or approximately 2.65%. These employers were selected because they lapsed and had outstanding balances owed to BWC of \$10,000 or more and had claims filed against them within the most recent two year period indicating they might be operating with lapsed coverage.

To date, over 10,000 non-compliance issues have been identified for review, investigation and possible resolution with over 3,000 being fully resolved. Over 18,000 contacts have been made with identified non-complying employers. ECD developed a process of referring non-complying employers to the Attorney General for Injunctive Relief.

Staffing of the department is currently at 21 members which includes 5 management staff, 14 Compliance staff and 2 Auditors.

#### **Future efforts:**

- Increased concentration of PEO Audits
- Increased concentration of Temporary Agency Audits
- Development of process to identify and interdict Employers who are operating off the record
- Increased data mining and review to pursue more high risk targets



Bureau of Workers'  
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## Internal Audit Open Discussion

### Audit Plan

#### Planning Phase:

- Compliance and Performance Monitoring Audit

#### Fieldwork Phase:

- Annual Risk Assessment/Enterprise Risk Management Project
- Audit Validation for December Audit Committee meeting
- Claims Quality Assurance Engagement
- Investment Request for Proposal Compliance Review
- MCO Audit
- Special Claims Audit

#### Final Phase:

- Employer Compliance Audit

#### Completed Projects:

- Disabled Workers' Relief Fund Audit
- Temporary Total Disability Audit

#### Office of Budget and Management IT Project:

- Cambridge Audit

### Other

# 12-Month Audit Committee Calendar

<b>Date</b>	<b>November 2010</b>
11/18/2010	1. Audit Committee Charter Review (2 <sup>nd</sup> Reading)
	2. Audit Discussion with External Auditor
	3. Discussion of External Audit Comments
	4. Education Sessions: Disabled Workers Relief Fund; Temporary Total Disability; Employer Compliance
	<b>December 2010</b>
12/15/2010	1. Internal Audit QES Review
	2. FY 2012 – 2013 Budget Process Education Session
	3. Annual Disaster Recovery/Business Continuity Plan
	<b>January 2011</b>
1/20/2011	1. External Audit Comments - Update
	2. PEO Education Session
	3. Quarterly Litigation Update (Executive Session)
	<b>February 2011</b>
2/23/2011	1. Inspector General Annual Report (Executive Session)
	<b>March 2011</b>
3/24/2011	1. Internal Audit QES Review
	2. Discount Rate and Financial Metrics (1 <sup>st</sup> Reading)
	<b>April 2011</b>
4/28/2011	1. Discussion of External Audit
	2. Discount Rate and Financial Metrics (2 <sup>nd</sup> Reading)
	3. FY 2012 Administrative Budget (1 <sup>st</sup> Reading)
	4. Quarterly Litigation Update (Executive Session)
	<b>May 2011</b>
5/26/2011	1. FY 2012 Administrative Budget (2 <sup>nd</sup> Reading)
	2. Internal Audit Charter
	<b>June 2011</b>
6/15/2011	1. FY 2012 Internal Audit Plan
	2. External Audit Update
	<b>July 2011</b>
7/28/2011	1. Internal Audit QES Review
	2. FY 2012 Financial Projections
	3. Quarterly Litigation Update (Executive Session)
8/25/2011	<b>August 2011</b>
	1. BWC Code of Ethics Review
	2. External Audit Update

# 12-Month Audit Committee Calendar

	<b>September 2011</b>
9/29/2011	1. Internal Audit QES Review
	2. Inspector General Semi-Annual Report (Executive Session)
<b>Date</b>	<b>October 2011</b>
10/27/11	1. Audit Committee Charter Review (1 <sup>st</sup> Reading)
	2. Internal Audit Annual Accomplishments Report
	3. Quarterly Litigation Update (Executive Session)

BWC Board of Directors

## **Audit Committee Agenda**

**William Green Building**

**Thursday, November 18, 2010**

Level 2, Room 3

12:30 p.m. - 2:00 p.m.

### **Call to Order**

Ken Haffey, Committee Chair

### **Roll Call**

Jill Whitworth, Scribe

### **Approve Minutes of October 21, 2010 meeting**

Ken Haffey, Committee Chair

### **Approve Agenda**

Ken Haffey, Committee Chair

### **New Business/ Action Items**

#### 1. Motions for Board Consideration

##### A. For Second Reading

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Ann Shannon, Legal Counsel

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#### 3. Discussion of External Audit Comments

Tracy Valentino, Chief of Fiscal and Planning

**Discussion Items\***

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Tina Kielmeyer, Chief of Customer Services

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Ken Haffey, Committee Chair

4. Litigation Update, Executive Session

James Barnes, General Counsel and Chief Ethics Officer

**Adjourn**

Ken Haffey, Committee Chair

**Next Meeting: Wednesday, December 15, 2010**

\*Not all agenda items have material.

\*\*Agenda subject to change.

OHIO BUREAU OF WORKERS' COMPENSATION  
AND  
INDUSTRIAL COMMISSION OF OHIO  
Columbus, Ohio

Management Letter

For the year ended June 30, 2010



INSIGHT ■ INNOVATION ■ EXPERIENCE

Marsha Ryan  
Administrator/CEO  
Ohio Bureau of Workers' Compensation  
30 West Spring Street L-29  
Columbus, OH 43215

Dear Ms. Ryan:

In planning and performing our audit of the financial statements of the Ohio Bureau of Workers' Compensation (the BWC) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the BWC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BWC's internal control. Accordingly, we do not express an opinion on the effectiveness of the BWC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 30, 2010 on the financial statements of the Ohio Bureau of Workers' Compensation. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. The BWC's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them. Our comments are summarized as follows:

### **Claim Payments**

#### *Observation:*

When performing tests of duplicate claims we were advised that the Field Operations Group produces a report showing potential duplicate claims which are to be investigated and resolved. When we attempted to test this control it was brought to our attention that these reports are not reviewed on a consistent basis. We recognize this is a secondary control and that there are other controls designed to identify duplicate claims. However, we recommend that management consistently review these reports and resolve potential duplicate claims.

Schneider Downs & Co., Inc.  
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*Management's Response:*

Management agrees with the audit findings. Field Operations will be developing procedures to ensure that documented reviews are conducted on potential duplicate claims identified from the monthly reporting query. Management also maintains processes at the beginning of the claims cycle to review potential duplicate claims on a pro-active basis such checks against the ISO (Insurance Service Office) data base and social security checks along with Injury Management Supervisory reviews of specific questions in the claims audit tool.

**Issue, Maintain and Service Policies**

*Observation:*

When performing testing over the controls associated with review, approval and initiation of Policies with over \$5,000 Available for Refund reporting, we noted that the review, approval and release of the policy refunds does not always appear timely. Out of the 60 samples selected, we noted 22 policy refunds that were not released within the recommended timeline.

We recommend the BWC develop more defined policies and procedures addressing premium refunds. Policies, especially as they pertain to retaining refunds for premiums due and timeliness, should be written to consider legal (bankruptcy, receivership) and reputational risks.

*Management's Response:*

Management agrees with the audit comment. More defined policies and procedures will be developed addressing policies on refund reviews during payroll reporting periods and the scope of work involved in obtaining documentation to support larger dollar refunds. Refund review procedures have been expanded to address internal audit concerns. Our goal is to make sure that only appropriate credits are refunded within a reasonable time frame.

*Observation:*

When performing testing over the controls associated with duplicate employers, we noted two policies for the same employer and neither was cancelled. In addition, our audit procedures identified two policies that were possible duplicates. Upon further research it was determined that the policies were not duplicates, but both had lapsed and were not canceled. We recommend that lapsed or duplicated policies be cancelled timely.

*Management's Response:*

Management agrees with the audit comment. BWC receives about 30,000 new business applications per year. The Private Employer New Business Procedures are very clear and detailed as they relate to the handling of potential duplicates. We have a quality review process in place where random transactions are reviewed for accuracy. A refresher course in processing duplicate applications will be conducted with all Policy Processing staff to avoid future mishandling of these items.

*Observation:*

When performing testing over changes in policies, we noted two policies for which written requests to cancel had been received. One of these policies was not cancelled until several months after the cancellation and the other was not cancelled until it was brought to management's attention during the audit. We recommend that management consistently honor cancellation requests in a timely manner.

*Management's Response:*

Management agrees with the audit finding. These two policies are exceptions to completing cancellation requests in a timely manner as most cancellation requests are processed within 30 days of receipt. We will examine our processes to identify potential ways to make sure all cancellation requests are processed in a timely manner.

**Journal Entry Testing**

*Observation:*

The BWC's policy regarding minor manual journal entries states that any adjustment over \$10,000 has to be approved by the Financial Reporting Manager or the General Ledger Supervisor for accounting entries outside of investments. We tested six minor journal entries and noted one of the entries was not approved by either position. We recommend that management reinforce this policy in which all minor entries over \$10,000 are approved by either the Financial Reporting Manager or the General Ledger Supervisor.

*Management's Response:*

Management agrees with the audit comment. Additional procedures will be performed as part of each month end close to identify any manual journal entries over \$10,000 to make sure these entries have been appropriately reviewed and approved.

**Managed Care Organization's SAS 70's**

*Observation:*

During the review of the Managed Care Organization's (MCO's) SAS 70's it was noted that a new requirement regarding insurance coverage relating to the MCO's was written into section three of the contract between the MCO's and BWC. However, it was noted that control objective number 21, which addresses insurance coverage,'s for the MCO's was not updated to reflect this new change. We recommend that BWC reevaluate the control objectives annually in order to ensure that changes to the contract are reflected in the testing procedures.

*Management's Response:*

BWC evaluates the control objectives used in the MCO SAS 70 audits on an annual basis to determine needed changes. This review will be expanded to ensure that contract changes are reviewed and incorporated where appropriate into the control objectives.

**Ohio Compliance Supplement and ORC Compliance**

*Observation:*

The BWC's payment card policy says that the invoice reconciliation consists of reviewing the transaction in OAKS, cardholder log, and the receipt to confirm that all match. We tested ten payment card transactions and we noted one instance in which the cardholder log and payment did not agree to the supporting receipt, which is an instance of non-compliance with Chapter 7-2 of the Ohio Compliance Supplement. We recommend that BWC reinforce this control to ensure compliance with the Ohio Compliance Supplement.

*Management's Response:*

BWC recognizes the importance of reconciling invoices and cardholder logs to OAKS transactions. BWC will review the procedure with all employees performing the reconciliation to stress the importance of confirming that the transactions in OAKS match the procurement card log and related invoices.

*Observation:*

The BWC's cell phone policies requires that on a monthly basis any employee who has been issued a cell phone for business use should sign and date the cell phone bill documenting that they have reviewed the bill, quantified all personal calls and, if necessary, reimburse the BWC for such calls. This should then be forwarded to the manager for their review. We tested five cell phone bills and we noted one instance where neither the employee nor the supervisor reviewed the cell phone bill, which is an instance of non-compliance with Chapter 7-2 of the Ohio Compliance Supplement. We recommend that the BWC require all employees with company issued cell phones review their bills with a signature noting personal and business calls and then submit the bill to their supervisor for review and approval.

*Management's Response:*

BWC will remind employees and management regarding BWC employee handbook memo 4.26, which requires employees with state issued cell phones to review their monthly cell phone bills, document any personal calls, and provide reimbursement for the total charge of their personal calls. The reviewed bills are returned to each supervisor who is responsible for reviewing to ensure appropriate usage and /or that reimbursement was made. We will stress the importance of documenting these reviews by signing the cell phone bills to indicate the reviews have been completed.

*Observation:*

The BWC's payment card policy says that reconciliation of invoices must be performed each time a transaction is processed for payment and the reconciliation must be performed by someone other than the cardholder. We tested ten payment card transactions noting one instance in which the invoice reconciliation was not signed by the individual performing the reconciliation, which is an instance of non-compliance with Chapter 7-2 of the Ohio Compliance Supplement. We recommend that the BWC require all employees performing the reconciliation to sign the reconciliation showing that the reconciliation was performed.

*Management's Response:*

BWC acknowledges that having the approver sign the payment card log is evidence of performing the reconciliation of invoices when processing for payment in OAKS. BWC will review the procedure with all employees performing the reconciliation to stress the importance of signing the payment card log when the reconciliation has been completed. A review of payment card logs signatures will also be performed to verify that reconciliations have been performed.

We wish to thank Ms. Tracy Valentino, Ms. Barb Ingram and Ms. Vicky Congrove and the rest of the staff for their assistance during our audit.

This report is intended solely for the information and use of the Board of Directors, management and others within BWC/IC, and is not intended to be and should not be used by anyone other than these specified parties.

*Schneider, Downs & Co., Inc.*

Columbus, Ohio  
September 30, 2010

OHIO BUREAU OF WORKERS' COMPENSATION  
AND  
INDUSTRIAL COMMISSION OF OHIO  
Columbus, Ohio

Management Letter

For the year ended June 30, 2010



INSIGHT ■ INNOVATION ■ EXPERIENCE

Marsha Ryan  
Administrator/CEO  
Ohio Bureau of Workers' Compensation  
30 West Spring Street L-29  
Columbus, OH 43215

Dear Ms. Ryan:

In planning and performing our audit of the financial statements of the Ohio Bureau of Workers' Compensation (the BWC) as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the BWC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BWC's internal control. Accordingly, we do not express an opinion on the effectiveness of the BWC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 30, 2010 on the financial statements of the Ohio Bureau of Workers' Compensation. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. The BWC's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them. Our comments are summarized as follows:

### **Claim Payments**

#### *Observation:*

When performing tests of duplicate claims we were advised that the Field Operations Group produces a report showing potential duplicate claims which are to be investigated and resolved. When we attempted to test this control it was brought to our attention that these reports are not reviewed on a consistent basis. We recognize this is a secondary control and that there are other controls designed to identify duplicate claims. However, we recommend that management consistently review these reports and resolve potential duplicate claims.

Schneider Downs & Co., Inc.  
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*Management's Response:*

Management agrees with the audit findings. Field Operations will be developing procedures to ensure that documented reviews are conducted on potential duplicate claims identified from the monthly reporting query. Management also maintains processes at the beginning of the claims cycle to review potential duplicate claims on a pro-active basis such checks against the ISO (Insurance Service Office) data base and social security checks along with Injury Management Supervisory reviews of specific questions in the claims audit tool.

**Issue, Maintain and Service Policies**

*Observation:*

When performing testing over the controls associated with review, approval and initiation of Policies with over \$5,000 Available for Refund reporting, we noted that the review, approval and release of the policy refunds does not always appear timely. Out of the 60 samples selected, we noted 22 policy refunds that were not released within the recommended timeline.

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*Management's Response:*

Management agrees with the audit comment. More defined policies and procedures will be developed addressing policies on refund reviews during payroll reporting periods and the scope of work involved in obtaining documentation to support larger dollar refunds. Refund review procedures have been expanded to address internal audit concerns. Our goal is to make sure that only appropriate credits are refunded within a reasonable time frame.

*Observation:*

When performing testing over the controls associated with duplicate employers, we noted two policies for the same employer and neither was cancelled. In addition, our audit procedures identified two policies that were possible duplicates. Upon further research it was determined that the policies were not duplicates, but both had lapsed and were not canceled. We recommend that lapsed or duplicated policies be cancelled timely.

*Management's Response:*

Management agrees with the audit comment. BWC receives about 30,000 new business applications per year. The Private Employer New Business Procedures are very clear and detailed as they relate to the handling of potential duplicates. We have a quality review process in place where random transactions are reviewed for accuracy. A refresher course in processing duplicate applications will be conducted with all Policy Processing staff to avoid future mishandling of these items.

*Observation:*

When performing testing over changes in policies, we noted two policies for which written requests to cancel had been received. One of these policies was not cancelled until several months after the cancellation and the other was not cancelled until it was brought to management's attention during the audit. We recommend that management consistently honor cancellation requests in a timely manner.

*Management's Response:*

Management agrees with the audit finding. These two policies are exceptions to completing cancellation requests in a timely manner as most cancellation requests are processed within 30 days of receipt. We will examine our processes to identify potential ways to make sure all cancellation requests are processed in a timely manner.

**Journal Entry Testing**

*Observation:*

The BWC's policy regarding minor manual journal entries states that any adjustment over \$10,000 has to be approved by the Financial Reporting Manager or the General Ledger Supervisor for accounting entries outside of investments. We tested six minor journal entries and noted one of the entries was not approved by either position. We recommend that management reinforce this policy in which all minor entries over \$10,000 are approved by either the Financial Reporting Manager or the General Ledger Supervisor.

*Management's Response:*

Management agrees with the audit comment. Additional procedures will be performed as part of each month end close to identify any manual journal entries over \$10,000 to make sure these entries have been appropriately reviewed and approved.

**Managed Care Organization's SAS 70's**

*Observation:*

During the review of the Managed Care Organization's (MCO's) SAS 70's it was noted that a new requirement regarding insurance coverage relating to the MCO's was written into section three of the contract between the MCO's and BWC. However, it was noted that control objective number 21, which addresses insurance coverage,'s for the MCO's was not updated to reflect this new change. We recommend that BWC reevaluate the control objectives annually in order to ensure that changes to the contract are reflected in the testing procedures.

*Management's Response:*

BWC evaluates the control objectives used in the MCO SAS 70 audits on an annual basis to determine needed changes. This review will be expanded to ensure that contract changes are reviewed and incorporated where appropriate into the control objectives.

**Ohio Compliance Supplement and ORC Compliance**

*Observation:*

The BWC's payment card policy says that the invoice reconciliation consists of reviewing the transaction in OAKS, cardholder log, and the receipt to confirm that all match. We tested ten payment card transactions and we noted one instance in which the cardholder log and payment did not agree to the supporting receipt, which is an instance of non-compliance with Chapter 7-2 of the Ohio Compliance Supplement. We recommend that BWC reinforce this control to ensure compliance with the Ohio Compliance Supplement.

*Management's Response:*

BWC recognizes the importance of reconciling invoices and cardholder logs to OAKS transactions. BWC will review the procedure with all employees performing the reconciliation to stress the importance of confirming that the transactions in OAKS match the procurement card log and related invoices.

*Observation:*

The BWC's cell phone policies requires that on a monthly basis any employee who has been issued a cell phone for business use should sign and date the cell phone bill documenting that they have reviewed the bill, quantified all personal calls and, if necessary, reimburse the BWC for such calls. This should then be forwarded to the manager for their review. We tested five cell phone bills and we noted one instance where neither the employee nor the supervisor reviewed the cell phone bill, which is an instance of non-compliance with Chapter 7-2 of the Ohio Compliance Supplement. We recommend that the BWC require all employees with company issued cell phones review their bills with a signature noting personal and business calls and then submit the bill to their supervisor for review and approval.

*Management's Response:*

BWC will remind employees and management regarding BWC employee handbook memo 4.26, which requires employees with state issued cell phones to review their monthly cell phone bills, document any personal calls, and provide reimbursement for the total charge of their personal calls. The reviewed bills are returned to each supervisor who is responsible for reviewing to ensure appropriate usage and /or that reimbursement was made. We will stress the importance of documenting these reviews by signing the cell phone bills to indicate the reviews have been completed.

*Observation:*

The BWC's payment card policy says that reconciliation of invoices must be performed each time a transaction is processed for payment and the reconciliation must be performed by someone other than the cardholder. We tested ten payment card transactions noting one instance in which the invoice reconciliation was not signed by the individual performing the reconciliation, which is an instance of non-compliance with Chapter 7-2 of the Ohio Compliance Supplement. We recommend that the BWC require all employees performing the reconciliation to sign the reconciliation showing that the reconciliation was performed.

*Management's Response:*

BWC acknowledges that having the approver sign the payment card log is evidence of performing the reconciliation of invoices when processing for payment in OAKS. BWC will review the procedure with all employees performing the reconciliation to stress the importance of signing the payment card log when the reconciliation has been completed. A review of payment card logs signatures will also be performed to verify that reconciliations have been performed.

We wish to thank Ms. Tracy Valentino, Ms. Barb Ingram and Ms. Vicky Congrove and the rest of the staff for their assistance during our audit.

This report is intended solely for the information and use of the Board of Directors, management and others within BWC/IC, and is not intended to be and should not be used by anyone other than these specified parties.

*Schneider, Downs & Co., Inc.*

Columbus, Ohio  
September 30, 2010